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IN THE

Supreme Court of the United States

OCTOBER TERM, 1944

NO. 373

ALPINE MacGREGOR, Petitioner,

v.

WESTINGHOUSE ELECTRIC & MANUFACTURING COMPANY, a Corporation, Respondent.

PETITION FOR WRIT OF CERTIORARI TO THE SUPREME COURT OF THE STATE OF PENNSYLVANIA AND BRIEF IN SUPPORT THEREOF.

WILLIAM B. JASPERT,
Counsel for Petitioner.

Pittsburgh, Pa.
August, 1944.

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PETITION FOR WRIT OF CERTIORARI TO THE SUPREME COURT OF THE STATE OF PENNSYLVANIA.

To the Honorable, the Chief Justice and Associate Justices of the Supreme Court of the United States:

The petitioner, Alpine MacGregor, respectfully prays for a writ of certiorari herein to review a certain final decision of the Supreme Court of the State of Pennsylvania, being the highest Court of the said State, in the above-entitled action, the opinion and decision of said Court having been rendered and filed June 30, 1944 (R. 11 b); by which said decision the said Court held that petitioner was estopped to attack the validity of a patent to thereby establish the illegality of a license agreement, containing price fixing provisions, in an ac-

tion for an accounting for royalties under said license agreement.

Questions Involved.

(1) Was petitioner deprived of a right under the decision of this Court in *Sola Electric Co. v. Jefferson Electric Co.*, 317 U. S. 173 by the action of the Supreme Court of Pennsylvania in the decision aforesaid, whereby he is ordered to render an accounting for royalties under an illegal agreement?

(2) In an action for an accounting under a patent royalty license containing price fixing provisions, may such price fixing provisions be stricken by application of the so-called "Blue Pencil Rule" for the purpose of decreeing an accounting if the patent is prima facie invalid?

(3) May petitioner recover royalties involuntarily paid under legal duress and under the provisions of an illegal license?

These questions were raised and relied upon by petitioner in the courts below; see appendix page 9 to this petition.

Statement of the Case.

This is an action *in assumpsit* for accounting under a patent royalty license tried in the Common Pleas Court, Allegheny County, Pittsburgh, Pennsylvania, without a jury.

The statement of claim (R. 6 a) alleges a license agreement (R. 195 a) dated November 16, 1937 between respondent and petitioner under Jones patent No.

1,651,709 dated December 6, 1927 (R. 333 a) covering the selling of brazing solders as described and claimed in the said patent. The statement of claim further alleges that said license was entered into by the parties in compromise of a patent infringement suit. The license provides, *inter alia,* that petitioner pay respondent a royalty of 10% of the net selling price of brazing solders as established by price schedules[1] furnished by respondent in conformity with paragraphs 5 and 6[2] of the license agreement.

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[1] Such price schedules were furnished for both distributor and user selling prices with the request they be maintained by petitioner under the provisions of sections 5 and 6 of the license agreement (R. 197 a, 198 a).

[2] Paragraphs 5 and 6 of the license agreement read as follows:

"5. WESTINGHOUSE grants this license on the express condition that the prices, terms and conditions of sale for use or sale in the United States of America, its territories and possessions of brazing solders embodying the invention covered by said Letters Patent and so long as such brazing solders continue to be covered by said patent, shall be no more favorable to the customer than those which from time to time WESTINGHOUSE establishes and maintains for its own sales of similar or competing brazing solders under such patent to such or other similarly situated customer purchasing in like quantities. MACGREGOR shall be notified of all such prices, terms and conditions of sale fixed by WESTINGHOUSE.

The prices, terms and conditions of sale of WESTINGHOUSE may be changed by WESTINGHOUSE from time to time, notice being given MACGREGOR, but not less than five days' notice shall be given before any such change shall go into effect.

6. It is agreed that it shall be regarded as an evasion of this agreement amounting to a breach thereof for MACGREGOR to reduce WESTINGHOUSE'S sale price or alter WESTINGHOUSE'S selling terms and conditions of

Respondent charges that in conformity with said license petitioner had paid royalties on a solder containing copper, phosphorus and tin, but that petitioner had refused to pay such royalties on a solder containing copper, phosphorus and silver, and that upon respondent's request for the payment of royalty on the latter, petitioner also refused to thereafter pay the royalties for the solder containing copper, phosphorus and tin.

The answer (R. 14 a) denies that petitioner's solder containing copper, phosphorus and tin, and copper, phosphorus and silver, comes under respondent's patent and within the terms of the license agreement, and denies that petitioner is accountable to respondent for any royalties as charged in the complaint.

The answer further avers that during the prosecution of the application that has matured into patent 1,651,709, respondent so distinguished the invention of that patent from the prior art cited by the Patent Office that it is estopped from asserting the patent to embrace within its scope solder comprising copper, phosphorus and tin or silver, or any materials other than copper and phosphorus as disclosed in the patent.

Petitioner's answer contains a set-off and counterclaim (R. 20 a) requesting repayment of royalties heretofore paid and further averring that if respondent's patent be construed to cover brazing solders containing

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sale directly or indirectly either through its own organization, its agents or others by any device, subterfuge or evasion or by any means whatever or to make the prices lower or the terms or conditions more favorable than those set forth by WESTINGHOUSE."

tin and silver it is invalid and void because the alleged invention purported to be patented thereby does not constitute patentable knowledge or invention within the meaning of the Patent Laws in view of the prior state of the art and because of respondent's admission that the alloy purported to be covered by the patent is old.[3]

The answer further avers that because of the price fixing provisions of the license agreement it is illegal and void and in violation of the anti-trust laws, namely, the Sherman and Clayton Acts, because the licensed patent is *prima facie* invalid and the license evidences an illegal use of respondent's patent monopoly (R. 23 a, 24 a).

After filing of the complaint in the state court, petitioner filed a declaratory judgment suit in the United States District Court for the Western District of Pennsylvania, asking that the patent be declared

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[3] The licensed patent to Jones 1,651,709 (R. 333 a) is for an alloy of copper and phosphorus, the preferred composition, as stated in the patent, being 8.2% of phosphorus and the remainder copper, which melts at 707° C. This exact proportion of copper and phosphorus is known as the eutectic alloy of copper and phosphorus and is fully disclosed in the prior publication "Metallic Alloys" of 1913, by Gulliver (R. 229 a). Respondent in its brief below admitted that the alloy was old *per se* but argued that the invention was in the use of the alloy as a solder. Respondent there said:

> "For example, plaintiff could not now claim that the Jones patent covers copper-phosphorus alloys generally, for as defendant's brief has pointed out at page 21 Jones admitted that such alloys *per se* were old before his invention. He specifically agreed that his invention is restricted to the solder described in the claims, as distinguished from copper-phosphorus alloys generally."

invalid and the license contract illegal. This suit was dismissed by motion of respondent on the ground that the state court having jurisdiction of the case could pass upon the question of validity of the patent and could dispose of the question of violation of the Sherman Act.

In the subsequent trial of the issues in the state court, the court refused testimony and exhibits as proof of invalidity of the patent (R. 99 a, 102 a) and refused evidence of damages, the court holding (R. 268 a) that "as between the parties" the patent is valid, and that damages under the Sherman Act could be recovered only by a suit in a federal court (R. 118 a).

On appeal to the Supreme Court of the State of Pennsylvania, the trial court was affirmed on the ground that the price fixing provision of the license agreement was not involved in the litigation to recover royalties and that the decision by this Court in *Sola Electric Co. v. Jefferson Electric Co., supra,* does not preclude the respondent from invoking the doctrine of estoppel.[4] The Court below, in reference to its former decision in *Angier v. Eaton, Cole & Burnham Co.,* 98 Pa. 594, held that it is a recognized principle applicable to patent licenses that while the patent is apparently valid and

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[4] The Pennsylvania Supreme Court said:

"The price-fixing clause is not in issue. It is raised merely as a defense to a suit for accounting and payment of accrued royalties. The legality, the enforceability of the price-fixing clause is a moot question. We therefore do not propose to declare the Jones patent invalid. Whether the price-fixing clause in the license is legal or invalid is not before this Court. It is our judgment that the decision of the Sola case does not control or determine the instant case."

the licensee is enjoying the benefit of its supposed validity, he is bound to pay the stipulated royalty, and cannot set up as a defense the actual invalidity of the patent.

The Supreme Court of Pennsylvania ignored the recent decision by the Seventh Circuit Court of Appeals in *Chicago Metallic Manufacturing Co. v. Katzinger Co.*, 139 F. 2d 291, construing this Court's decision in *Sola Electric Co. v. Jefferson Electric Co.*, to the effect that a licensee sued for royalty under a patent license may prove illegality of the license by establishing invalidity of the patent so long as such license contains price fixing provisions, irrespective of whether the licensor is attempting to enforce such price fixing provisions.

Reasons for Allowance of the Writ.

I. Because the decision of the Supreme Court of the State of Pennsylvania is in conflict with the decision of this Court in *Sola Electric Co. v. Jefferson Electric Co.*, 317 U.S. 173.

II. Because the decision of the Supreme Court of the State of Pennsylvania is in conflict with the decision of the Seventh Circuit Court of Appeals in *Chicago Metallic Manufacturing Co. v. Katzinger Co.*, 139 F. 2d 291.

III. Because the Supreme Court of Pennsylvania has decided a federal question of substance in a way not in accord with the applicable decisions of this Court.

The Importance of the Question.

Clarification and extension of the rule of the *Sola* case, *supra,* appears to be necessary in the public interest. While the decision of the Supreme Court of Pennsylvania is unanimous, it is in direct conflict with the decision of the Seventh Circuit Court of Appeals in the *Chicago v. Katzinger* case, *supra,* both Courts being courts of last resort, and the circumstance that the aforesaid decisions of the highest court of the State of Pennsylvania and the Seventh Federal Judicial Circuit are irreconcilable is serious. If the decision below is allowed to stand it becomes the machinery for enforcing a fraudulent scheme to abuse the patent privilege.

WHEREFORE your petitioner respectfully prays that a writ of certiorari be issued out of and under the seal of your Honorable Court directed to the Supreme Court of Pennsylvania, commanding that Court to certify and send to your Honorable Court for review and determination, on a day certain therein to be named, a full and complete transcript of the record of all proceedings in the case numbered and entered on its docket as No. 124 March Term, 1944, entitled Westinghouse Electric & Manufacturing Co., a corporation, v. Alpine MacGregor, Appellant, and that the judgment of said Court, entered June 30, 1944, be reversed by your Honorable Court, and that your petitioner may have such other and further relief in the premises as to your Honorable Court may seem meet and just.

Respectfully submitted,

WILLIAM B. JASPERT,
Attorney for Petitioner.

August, 1944.

APPENDIX TO PETITION FOR CERTIORARI

(Questions Presented to Supreme Court of Pennsylvania)

Statement of Questions Involved.

Where a patent owner sues his licensee for an accounting of royalties under a license:

1. May the court give to the patent in suit a scope inconsistent with the disclosure of the patent and to cover subject matter disclaimed by the patentee in the Patent Office? *(Affirmed)*

2. Is defendant permitted to show that the patent under which he is licensed cannot be construed to cover the articles for which plaintiff seeks an accounting? *(Negatived)*

3. May the defendant offer proof of the illegality of the license including proof of invalidity of the patent if the license contains price-fixing provisions? *(Negatived)*

4. May the court apply the so-called "Blue Pencil Rule" to strike out the price-fixing provisions of the license and decree an accounting for royalties established by such price-fixing provisions? *(Affirmed)*

5. May the court by applying local rules of estoppel compel defendant to account under a patent which is *prima facie* invalid? *(Affirmed)*

6. Is defendant permitted to show that the claims of the patent in suit have no utility and do not

define any invention within the meaning of Section 4888 of the Revised Statutes (U.S.C., Title 35, Sec. 33)? *(Negatived)*

7. May appellant recover royalties involuntarily paid to appellee under legal duress and under the provisions of an illegal agreement? *(Negatived)*

8. May the defendant to a suit for an accounting under an illegal license agreement violating the Sherman Act, recover damages from the plaintiff? *(Negatived)*

BRIEF IN SUPPORT OF PETITION

Opinions of the Courts Below.

The opinion of Judge Soffel of the Common Pleas Court of Allegheny County, Pennsylvania, appears at page 253 a of the record, as tendered to the Supreme Court of Pennsylvania. The opinion of Judge Maxey of the Supreme Court of Pennsylvania is unreported and appears at page 11 b of the record.

Jurisdiction.

The grounds of jurisdiction are:

(1) The judgment to be reviewed, trial court R. 331 a, was entered January 24, 1944 and affirmed R. 11 b June 30, 1944.

(2) The statutes under which the jurisdiction is invoked are 28 U.S.C.A. 344(b) Jud. Code 237(b), as amended and Section 240(a) of the Judicial Code, 28 U.S.C. 347, as amended by the Act of February 13, 1925. Cases believed to sustain the jurisdiction are *Powers-Kennedy Contracting Corp. v. Concrete Mixing, etc. Co.,* 282 U.S. 175, 176; *Saranac Automatic Mach. Corp. v. Wirebounds Patent Co.,* 282 U.S. 704, 705; *U. S. Industrial Chemicals v. Carbide and Carbon Chemicals,* 315 U. S. 668, 669, and *Southland Gasoline v. Bayley,* 319 U.S. 44; *Aquilar v. Standard Oil,* 318 U.S. 724, 726, where there were conflicts of decisions.

Statement.

The facts are sufficiently stated in the petition.

Specifications of Error.

The errors which petitioner will urge, if the writ of certiorari is granted, are that the Supreme Court of the State of Pennsylvania erred in holding:

1. That this Court's decision in *Sola Electric Co. v. Jefferson Electric Co.*, 317 U.S. 173, does not govern the decision of any issue raised in this case, and that the decision in the *Sola* case does not preclude the plaintiff-respondent from invoking the doctrine of estoppel.

2. That to grant the prayer for an accounting does not result in anything which is interdicted by the federal anti-trust laws.

3. That whether the price fixing clause in the license is legal or invalid was not before it.

4. That while a patent is apparently valid and the licensee is enjoying the benefit of its supposed validity, he is bound to pay the stipulated royalty and cannot set up as a defense the actual invalidity of the patent.

5. That petitioner is not entitled to repayment of royalties paid under legal duress and under the provisions of an illegal license agreement.

Summary of Argument.

The points of argument follow the reasons relied upon for the allowance of the writ.

Argument.

The merits of this case are presented in the opinion of the Supreme Court of the State of Pennsylvania (R. 11 b) and also in the petition (p. 7).

POINT I.

The Decision of the Supreme Court of the State of Pennsylvania Is in Conflict With the Decisions of This Court.

In *Sola Electric Co. v. Jefferson Electric Co.*, 317 U.S. 173, this Court had before it the question of whether or not a licensee was estopped to challenge the validity of the licensed patent in a suit for an accounting where such license contains price fixing provisions, and whether the doctrine of estoppel is so in conflict with the Sherman Act's prohibition of price fixing, that this Court may resolve the question even though its conclusion be contrary to that of a state court. Mr. Chief Justice Stone, speaking for the Court, said (p. 173):

> "Agreements fixing the competitive sales price of articles moving interstate, not within the protection of a patent, are unlawful because prohibited by the Sherman Act.
>
> * * * * * * *
>
> "* * * petitioner may assert the illegality of the price-fixing agreement and may offer any competent evidence to establish its illegality, including proof of the invalidity of the patent.

The Supreme Court of Pennsylvania attempts to distinguish the case at bar from the *Sola* case by holding that in the latter the patent owner was attempting to enforce the maintenance of prices fixed in accordance with the terms of the license. If that were the full import of that decision the pronouncement by this Court that patent licenses containing price fixing provisions are illegal and a violation of the Sherman Act, save only when supported by a valid patent, would have no sig-

nificance so long as the patent owner did not request a court to enforce the price fixing provisions *per se*. It was obviously not the intention to distinguish between illegal agreements on the basis of the use made of such agreements. As we read the *Sola* decision, this Court pronounced that the public policy of the Sherman Act condemns the practice of price fixing of articles entering interstate commerce except only when such articles are within the scope of a valid patent monopoly.

Respondent apparently is of a like view because after the trial of this case but before the decision was handed down, it sent petitioner a telegram purporting to cancel the price fixing clauses, paragraphs 5 and 6 of the license agreement.[5]

The trial court, in avoidance of the *Sola* decision, held (R. 268 a) (Conclusion of Law No. 11):

"As between these parties the Jones patent No.

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5 "Pittsburgh Pa Apr 12

ALPINE MACGREGOR CARE ALLOY SPECIALTY CO
2141 WAVERLY ST

REFERRING TO THE LICENSE AGREEMENT EXECUTED NOVEMBER 19 1937 BY AND BETWEEN WESTINGHOUSE ELECTRIC AND MFG CO AND ALPINE MACGREGOR UNDER UNITED STATES PATENT 1651709 WE WISH TO NOTIFY YOU THAT EFFECTIVE APRIL 17 1943 THE WESTINGHOUSE ELECTRIC AND MFG CO HEREBY WAIVES DURING THE TERM OF THE AFORESAID AGREEMENT ARTICLES 5 AND 6 THEREOF RELATING TO PRICES TERMS AND CONDITIONS OF SALE AND HEREBY WITHDRAWS ALL SCHEDULES OF PRICES TERMS AND CONDITIONS OF SALE UNDER SAID AGREEMENT NOW IN FORCE

J B SEASTONE
WESTINGHOUSE ELECTRIC AND MFG CO"

> 1,651,709 is valid, and the license agreement is legal and enforceable."

And further held that if the price fixing clauses are illegal they could be stricken from the agreement by application of the so-called "Blue Pencil Rule", recognized by the Supreme Court of Pennsylvania, *Smith's Appeal,* 113 Pa. 579; *Monongahela, etc. v. Jutte,* 210 Pa. 288, with no effect on the obligation to pay royalty.

It is well settled law that the "Blue Pencil Rule" may not be applied to contracts violating state or federal statutes in contravention of the public policy of such statute. In *Hazelton v. Scheckles,* 202 U.S. 71, 78, Mr. Justice Holmes, speaking for the Supreme Court, said:

> "Every part of the consideration goes equally to the whole promise and therefore, if any part of it is contrary to public policy, the whole promise fails."

In *Western Indemnity Co. v. Crafts,* 240 F. 1, 7, the Circuit Court of Appeals for the Sixth Circuit after quoting from *Hazelton v. Scheckles* said, with reference to a state statute:

> "The statute clearly implies a rule of public policy which is condemnatory of such a scheme, and the effect of this was to taint the very consideration upon which the indemnity contract was founded.
>
> * * * * * * *
>
> "See also, *McMullen v. Hoffman,* 174 U. S. 639, 654, 19 Sup. Ct. 839, 43 L. Ed. 1117; *Oscanyan v. Arms Co.,* 103 U. S. 261, 268 et seq., 26 L. Ed. 539;

Arnold v. Clifford, Fed. Cas. No. 555, C. C., decided by Mr. Justice Story on circuit."

If the price fixing provisions cannot be stricken then legality of the license can be determined only with reference to the validity of the Jones patent, which is *prima facie* invalid under the law pronounced by this Court because it is for an alleged new use of an admittedly old alloy. In *Holland Furniture Co. v. Perkins Glue Co.,* 277 U.S. 245, Mr. Chief Justice Stone, speaking for this Court, said:

"* * * the attempt to broaden product claims by describing the product exclusively in terms of its use or function is subject to the same vice as is the attempt to describe a patentable device or machine in terms of its function. As a description of the invention it is insufficient and if allowed would extend the monopoly beyond the invention. * * * Cochran v. Badische, 112 U.S. 293."

This is the well settled law of this Court as pronounced in *Miller and others v. Foree,* 116 U.S. 22; *Brown v. Piper,* 91 U.S. 37; *Knapp v. Morss,* 150 U.S. 221; *Aron v. Manhattan Railway Co.,* 132 U.S. 84; *Ansonia Brass & Copper Co. v. Electrical Supply Co.,* 144 U.S. 11.

The rule of law was specifically applied to a composition of matter, such as the alloy here, in *Kaumagraph Co. v. Superior Trade Mark Mfg. Co.,* 72 F. 2d 417, wherein the Second Circuit Court of Appeals said:

"A patent for a composition of matter covers the composition described and claimed, but not every use or function of it. A description of such a composition in terms of its use or function would not be

sufficient to make it patentable. Holland Furniture Co. v. Perkins Glue Co., 277 U.S. 245."[6]

Under the foregoing authorities the mere use of an old alloy for soldering is not patentable invention and the Jones patent herein licensed is *prima facie* invalid.

The claims of the Jones patent are further invalid as not being for any invention described or shown in the patent. The claims originally filed in the Patent Office for the alloys described in the patent, numbered 3, 4, and 8 (R. 208 a), were canceled after rejection and the claims 1 to 4 of the patent here in suit cannot be read without including the subject matter of the canceled claims.

It is fundamental patent law that a patentee is estopped from asserting his patent to cover subject matter canceled from the application during its prosecution in the Patent Office; *Royer v. Coupe,* 146 U.S. 524; *Corbin Cab Lock Co. v. Eagle Lock Co.,* 150 U.S. 38; *Hubbell v. U.S.,* 179 U.S. 77; *Morgan Envelope Co. v.*

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[6]In the prosecution of his application in the United States Patent Office, when rejected on the publication to Gulliver, "Metallic Alloys" (R. 229 a), applicant admitted that the composition of his alloy was old. He said (R. 210 a):

> "Applicant admits that he is not the first to produce a copper phosphorus alloy of this approximate composition but believes that he has discovered new properties of such alloy which make it especially adapted for application in soldering."

Respondent in its brief below made a like admission, as quoted in the footnote p. 5 of the petition, but it contended that the invention resides in the use of the old alloy for soldering.

Albany Perforated Wrapping Paper Co., 152 U.S. 425; *Keystone Driller Co. v. North West Eng. Co.*, 294 U.S. 42.

In *Leggett v. Avery*, 101 U.S. 256, 259, Mr. Justice Bradley, speaking for the Court, said:

> "The allowance of claims once formally abandoned by the applicant, in order to get his letters patent through, is the occasion of immense frauds against the public."

The claims of the patent are further invalid under recent decisions by this Court as failing to comply with Section 4888 of the Revised Statutes. In *General Electric Co. v. Wabash Appliance Corp.*, 304 U.S. 364, the Court said:

> "We need not inquire whether Pacz exhibited invention, or whether his product was anticipated. The claim is invalid on its face. It fails to make a disclosure sufficiently definite to satisfy the requirements of R.S. Section 4888, 35 U.S.C. Sec. 33 * * *."

This case was followed in *United Carbon Co. v. Binney & Smith Co.*, decided by this Court on the same day as the *Sola* case, and reported 55 U.S.P.Q. 581.

Obviously the claims are indistinct both as to the range of proportions of the compositions employed and the temperature range at which they are to be used, none of the compositions or temperature ranges of the claims being described in the patent.

POINT II.

The Decision of the Supreme Court of the State of Pennsylvania Is in Conflict With a Recent Decision of the Seventh Circuit Court of Appeals.

The contention in the Court below that the *Sola* decision does not apply unless the enforcement of a price fixing provision is directly in issue is in conflict with the decision of the Seventh Circuit Court of Appeals in *Chicago Metallic Manufacturing Co. v. Katzinger Co.*, 139 F. 2d 291. In that case the District Court had likewise held that the *Sola Electric* case did not apply because price fixing had not been proven and there was further no proof that respondent attempted to carry out the price fixing provisions. The Court of Appeals, in reversing the District Court, said:

> "The license agreement, Paragraph 11, supra, note 1, did provide for a clear price-fixing arrangement. The appellee will not be heard to say that it really was not in favor of the provisions as to price-fixing contained in a written agreement it had signed, or that it did not practice price-fixing. The important thing is that the appellee had provided by contract for the right to fix prices. The agreement was plain and unambiguous. It is not claimed otherwise. There was no justification for the construction that the District Court put upon it to avoid the scope of the Supreme Court's opinion in the Sola case. By the plain provisions of the license agreement, there were arrangements for price-fixing. This was not a separable provision of the agreement, and it was, like the rest of the agreement, based upon a common consideration and was

a part of the contract after notice of determination, though functus officio as to the future. The agreement was not purged of the deleterious effect of the price-fixing arrangement by notice of termination. The vice lay in its incorporation in the contract at all. A contract containing price-fixing provisions which do not have the protection of a lawfully granted patent monopoly is invalid, being a violation of the Sherman Anti-Trust Act, 15 U.S.C.A. §§ 1-7, 15 note, and no recovery may be had upon it. Continental Wall Paper Co. v. Louis Voight & Sons Co., 212 U.S. 227, 29 S. Ct. 280, 53 L. Ed. 486. Therefore, since the validity of the entire contract depends upon the validity of the patent, it is clear that no estoppel arising out of the contract can prevent an examination of the patent's validity.

"We decide on the authority of the Sola case, supra, that the appellant was not estopped to deny the validity of the patents, because the license agreement which provided for the estoppel carried a provision for price-fixing. For that reason, no estoppel could arise."

The decision by the Supreme Court of Pennsylvania in the case at bar is in direct conflict with the construction given this Court's decision in the *Sola* case by the Seventh Circuit Court of Appeals. Both courts are courts of last resort and we believe this vital federal question is of sufficient public importance to warrant review and clarification by this Court.

POINT III.

The Decision of the Court Below Is in Conflict With the Applicable Decisions of This Court.

The decision by the Court below is in conflict with the decisions of this Court holding that a patent is unenforceable unless the owner confines the use of his patent to the monopoly granted thereby; *Carbice Corp. v. American Patents Corp.,* 283 U.S. 27; *Leitch Mfg. Co. v. Barber Co.,* 302 U.S. 458; *Bauer & Cie v. O'Donnell,* 229 U.S. 1; *Ethyl Gas v. United States,* 309 U.S. 436; *Morton Salt Co. v. Suppiger,* 314 U.S. 488; *Mercoid Corp. v. Mid-Continent Investment Co.,* 320 U.S. 661.

In reliance upon the price fixing provisions, paragraphs 5 and 6 of the agreement, respondent issued not only a distributor price list, Defendant's Ex. L (R. 234 a), but a user price list as well (R. 232 a), and instructed petitioner by letter dated July 11, 1940 (R. 231 a) to enforce both the user and distributor price and discount sheets.[7]

---

[7] Excerpt from letter dated July 11, 1940:

"Confirming our conversation with you today, we are handing you herewith copies of our revised User Price List 26-820, pages 1 and 2, and Distributor Price and Discount Sheets 26-826, pages 1, 2 and 3. These modified price and discount sheets are to be made effective August 1, 1940.

"In connection with this price form you of course understand your obligation to observe and follow these prices, terms, and conditions of sale established by Westinghouse in accordance with the provisions of paragraphs 5 of our license agreement with you dated November 16, 1937. These prices are minimum and discounts are maximum and neither is to be bettered either directly or indirectly in any manner whatsoever."

Petitioner testified (R. 85 a to 88 a) that he was requested to maintain the list prices and to get his distributor, Corbett and Alfson, to adhere to the schedule on resale prices, and while respondent attempted by means of a self-serving letter, Plaintiff's Ex. 4 (R. 204 a), to deny that it had required petitioner to conform to the user price, petitioner testified in cross examination (R. 145 a) that respondent tried to force petitioner to maintain the resale price both before and after said letter was written by respondent's counsel.

The practice of maintaining the resale price of patented articles, even where the patent is valid, is condemned by this Court in *Bauer & Cie v. O'Donnell,* 229 U.S. 1, where Mr. Justice Day, speaking for the Court, said (p. 17):

> "* * * it was the intention of Congress to secure an exclusive right to sell, and there is no grant of a privilege to keep up prices and prevent competition by notices restricting the price at which the article may be resold. The right to vend conferred by the patent law has been exercised, and the added restriction is beyond the protection and purpose of the act."

And in a recent decision, *Ethyl Gas v. United States,* 309 U.S. 436, the Court said:

> "And by the authorized sales of the fuel by refiners to jobbers the patent monopoly over it is exhausted, and after the sale neither appellant nor the refiners may longer rely on the patents to exercise any control over the price at which the fuel may be resold."

The facts of this case clearly reveal such conduct by respondent as would render its patent unenforceable,

and by the present suit, respondent is asking the Court to lend aid in the furtherance of its illegal practices.

POINT IV.

Petitioner Is Entitled to Recover Royalties Paid Under Legal Duress.

The license under which respondent seeks an accounting was offered petitioner, MacGregor, in compromise of a patent infringement suit under the Jones patent 1,651,709, brought in the Western District of Pennsylvania March 31, 1937. Petitioner testified (R. 178 a) that at the time of the infringement suit he was not financially able to incur the expense of defending the suit. The patentee's commitments to the Patent Office and his own admission that the alloy purported to be covered by the patent is old and the admission by Seastone of respondent company, (R. 68 a) that petitioner is the only competitor manufacturing copper-phosphorus solders, makes it clear that the motive behind the original infringement suit was to foist upon petitioner a license under which respondent would restrict petitioner's manufacture by controlling his selling price, to his great loss and damage.

Petitioner's investment in his plant and equipment gave him no choice but to accept the license from respondent to protect his property rights and to emancipate his business from the threat of respondent's assertion of its patent monopoly; but when respondent further asserted that a new soldering composition containing silver also came under its patent, petitioner refused to meet respondent's demands and was promptly sued.

Under similar circumstances the courts have held that such payments are compulsory and amount to extortion. In *Corkle v. Maxwell,* Fed. case 3,231, 3 Blatch f. 413, it was held that when payment has been obtained by fraud, oppression or extortion, or when it is made to secure a right which the party was entitled to without payment, but could not obtain otherwise, or when it is made on a wrongful demand to save the party from some great mischief, that he could not otherwise avoid, it is not voluntary and may be recovered back. In the case of *The John Francis,* 184 F. 746, it was held that payment made to emancipate property from an actual and existing duress imposed by a person to whom the money is paid may be recovered.

In *E. R. Squibb & Sons v. Chemical Foundation,* 93 F. 2d 475, the Court of Appeals for the Second Circuit held that royalties paid after expiration of a patent are recoverable. Where as here the patent is clearly invalid and of no force and effect, the acceptance of the royalty payments by Westinghouse cannot be justified any more than in the *Squibb* case.

We submit that the facts and circumstances of the case evidence fraud and legal duress making the royalty payments compulsory upon petitioner and that the sum of $6,029.64 should be repaid by respondent to petitioner.

Conclusion.

The instant suit is legal duress and a fraud upon petitioner and the public. It is a premeditated scheme to deprive petitioner of his rights to the enjoyment of free enterprise and trade and to destroy a competitor.

The decision below imposes an unjust burden for payment and a continuing and effective restraint upon petitioner, and, unless reversed, becomes the machinery for enforcing a fraudulent scheme to abuse the patent privilege.

The petition for a writ of certiorari to the Supreme Court of Pennsylvania should be granted.

Respectfully submitted,

WILLIAM B. JASPERT,
Counsel for Petitioner.

Pittsburgh, Pa.
August, 1944

SEP 20 1944
CHARLES ELMORE CROPLEY
CLERK

Supreme Court of the United States

OCTOBER TERM, 1944.

No. 373

ALPINE MacGREGOR,

Petitioner,

vs.

WESTINGHOUSE ELECTRIC & MANUFACTURING COMPANY,

Respondent.

RESPONDENT'S BRIEF OPPOSING THE PETITION FOR CERTIORARI.

JO. BAILY BROWN,
First National Bank Building,
Pittsburgh, Pa.,
Counsel for Respondent.

WILLIAM BOOTH,
Union Trust Building,
Pittsburgh, Pa.,
Of Counsel.

BATAVIA TIMES, LAW PRINTERS,
BATAVIA, N. Y.
JOSIAH SMITH CO., PENNSYLVANIA REPRESENTATIVE,
704 SECOND AVENUE, PITTSBURGH, PA.

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Supreme Court of the United States

OCTOBER TERM, 1944.

No. .....

ALPINE MACGREGOR,

Petitioner,

vs.

WESTINGHOUSE ELECTRIC & MANUFACTURING COMPANY, a Corporation,

Respondent.

RESPONDENT'S BRIEF OPPOSING THE PETITION FOR CERTIORARI.*

The petition should be denied for any one of the following reasons:

1. The jurisdiction of this Court to review a decision of a state court does not include this case because (a) no constitutional question, or right arising under federal law is affected by the judgment below, and (b) no final decree has been entered below.

2. The Supreme Court of Pennsylvania recognized and properly applied the principle of law laid down by this Court in *Sola v. Jefferson.*

The Petition is in effect an attempt to appeal from a decision of the Supreme Court of Pennsylvania applying

* The opinion of the Court below is reported at 38 A. 2d 244.
All marks of emphasis in quotations are ours unless otherwise noted.

the law of that State to the interpretation and enforcement of a contract between citizens of that state, the judgment rendered merely requiring petitioner to account for and pay money as provided by the contract in suit. That in no way involves a federal law.

Counterstatement of the Case.

Petitioner, defendant below, while an employee of respondent, Westinghouse, became familiar with the composition and uses of a copper-phosphorus solder being made, used, and sold by Westinghouse, covered by patent No. 1,651,709, owned by respondent. Upon leaving Westinghouse, MacGregor commenced the manufacture and sale of a solder of substantially the same composition and characteristics as the patented solder. Westinghouse promptly sued MacGregor in the United States District Court at Pittsburgh for infringement of its patent. Instead of defending the suit, MacGregor, then represented by the same counsel that represents him here, took the license which is the subject matter of this litigation. That license provides that MacGregor shall pay a royalty and shall sell the licensed solder at prices no less than those charged for the patented solder by Westinghouse. R. p. 195 a. MacGregor operated and paid royalties under the license agreement for about four years. Finding 7, R. p. 242 a.

Some years after execution of the license contract, MacGregor put on the market another copper-phosphorus solder of slightly varied constituents. Westinghouse demanded payment of royalties on this new solder. MacGregor refused, and at the same time decided to stop payment of royalties on the solder that had been the basis of the infringement suit. Findings 8 and 9, R. p. 242 a.

Westinghouse brought the present suit on the license contract in the Court of Common Pleas of Allegheny County, Pennsylvania, in which County both parties are residents. The prayer of the bill is that defendant be required to account for and pay the royalty due under the contract. R. pp. 8-9 a. MacGregor by way of defense pleads that the two solders above referred to do not come under the patent, that the licensed patent is invalid, and that the contract is unenforceable because it *contains* a clause requiring MacGregor to maintain licensor's prices on the patented solder. He also counterclaims to recover royalties paid "by mistake", and for unspecified damages under the Sherman Act. R. p. 20 a.

The case was tried at law, without a jury, the facts being found specially by request of the parties. The Trial Court received evidence to limit the construction of the licensed patent, but refused to receive evidence offered to attack its validity, on the ground that a licensee is estopped to contest validity of the licensed patent. It found as facts and conclusions of law that both defendant's solders above referred to come within the scope of the patent, and therefore under the license agreement to pay royalties. R. p. 267 a. It found the counterclaim without merit because there had been no mistake. It ordered an accounting to determine the amount of licensed product that had been made and sold by defendant and upon which royalty had not been paid.

The Supreme Court of Pennsylvania affirmed the Trial Court in all respects, remanding the case for an accounting.

Jurisdiction is Lacking.

Petitioner's brief, at page 11, invokes jurisdiction under the provisions of 28 U. S. C. 344 (b), Judicial Code 237, and

28 U. S. C. 347, Judicial Code 240. We submit that Section 347 is not pertinent, being applicable only to *certiorari to federal courts.*

Jurisdiction of this Court to review the decision below must be found in Section 344. As we understand that statute, this Court has jurisdiction to review only a *final* judgment of a state court (paragraph a) and such review extends only to cases where the decision of the highest state court (1) involves the validity of a treaty or statute of the United States, or (2) involves the validity of a state statute asserted to be contrary to the constitution, treaties, or laws of the United States, or where (3) a right is specially set up and claimed under the Constitution or federal laws.

The present case does not fall within any of the statutory provisions.

Petitioner's brief at page 11 cites five cases as sustaining the jurisdiction of this Court in the present case. *Those cases have no bearing whatever upon the Court's jurisdiction in the present case because all of them relate to certiorari where there was direct conflict of decision on matters of Federal law between federal courts.*

The present case, involving a *state* court decision, falls under 28 U. S. C. 344 (b), and petitioner cites no cases pertinent to that source of jurisdiction.

The burden to show jurisdiction is on petitioner.

Gorman v. Washington, 316 U. S. 98, 101.

The jurisdiction of this Court to review decisions of the highest court of a state is statutory and exists only when the case falls clearly within the statutory provisions.

Roller v. Murray, 234 U. S. 738;

Waters Pierce v. Texas, 212 U. S. 86;
Citizens Bank v. Opperman, 249 U. S. 448.

No Federal Question is Involved in the Decision Below.

The suit below seeks to enforce payments provided by a contract between two citizens of Pennsylvania. No other issue was raised by plaintiff. See the Statement of Claim at R. p. 9 a.

Petitioner, purely as a matter of defense, to avoid payment of royalties, attempted to attack validity of the patent, and enforceability of the contract, because a price-fixing clause, not in suit, was included in the license contract. That price-fixing clause had not been observed, and was not either directly or indirectly involved in the suit brought by plaintiff. See opinion of the Supreme Court of Pennsylvania, page 16b.

The Court below held that under Pennsylvania law a licensee is estopped to attack validity of a patent under which he holds a license. It also held that since the price-fixing clause of the license was not asserted or relied upon by plaintiff, the legality of that clause under federal law is a moot question which the state court had no reason to consider. See opinion below, page 16b.

The Trial Court (which was affirmed in all respects on appeal) held as a conclusion of law (R. p. 268a and 314a) that even if the price-fixing clauses were *per se* illegal (as violating federal law), they were separable, and could be excluded under "The Blue Pencil Rule", as had been done by the Supreme Court of Pennsylvania in construing other contracts involving restraint of trade (illegal under federal law) between citizens of Pennsylvania, citing *Smiths Appeal*, 113 Pa. 579, and *Monongahela v. Jutte*, 210 Pa. 288.

This Court has repeatedly held that it is essential to its jurisdiction in reviewing a decision of a state court that it must affirmatively appear from the record, not only that a federal question was presented for decision, but that the decision of the federal question was necessary to the determination of the cause, that the federal question was actually decided, or that the judgment as rendered could not have been given without deciding it.

Southwestern Telephone Company v. Oklahoma, 303 U. S. 206, 212;
Lynch v. People of N. Y., 293 U. S. 52.

Decisions of state courts based on local laws, not involving federal questions, are not reviewable by this Court.

Campbell v. Olney, 262 U. S. 352, 43 S. Ct. 559.

This Court has no jurisdiction unless a real and not a frivolous federal question is involved. Mere assertion of some right under federal law is not sufficient.

U. S. Fidelity v. Oklahoma, 250 U. S. 111, 39 S. Ct. 399.

Save in exceptional circumstances, this Court accepts as controlling a decision of the state court on questions of local law, both statutory and common.

American Express v. Kentucky, 273 U. S. 269, 47 S. Ct. 353.

A suit on a contract of which a patent is the subject matter, either to enforce such contract or to annul it, where the decision of a state court is based upon the contract, does not present a federal question.

Dale v. Hyatt, 125 U. S. 46, 8 S. Ct. 756;
Felix v. Scharnweber, 125 U. S. 54, 8 S. Ct. 759;
Wood v. Skinner, 139 U. S. 293, 11 S. Ct. 528.

The Judgment below was Not Final.

The judgment of the Trial Court in this case was *to order an accounting.* R. p. 33 a. The decree of the Supreme Court of Pennsylvania affirmed the judgment below. R. p. 21b. A final decree will not be entered until the accounting has been completed. Under such circumstances this case, even if it were otherwise within the scope of the statute, is not ripe for review by this Court.

Arnold v. United States, 263 U. S. 427, 44 S. Ct. 144;

Louisiana Navigation Company v. Louisiana, 226 U. S. 99, 33 S. Ct. 78.

A judgment fixing the rights and liabilities of the parties but remanding the case for an accounting upon which a further decree is to be entered, is not final.

California v. Statler, 171 U. S. 447, 19 S. Ct. 6.

The Sola case does Not Create for Defendant a Right to Attack Validity of the Licensed Patent.

The exception to the rule that a licensee is estopped to attack validity of the licensed patent arises under the decision of this Court in *Sola Electric Company v. Jefferson Electric Co.,* 317 U. S. 173, 63 S. Ct. 172.

Petitioner's argument is that since the license contract contains price-fixing clauses (Sec. 5 and 6, R. p. 197-8a), that fact of itself, *regardless of enforcement of the clauses,* gives licensee a *right* to assert invalidity of the patent, thereupon to assert unenforceability of the contract, thereby to refuse payment of agreed royalties.

Petitioner seems to think the *Sola* decision creates some new personal *right* for a licensee-defendant, analogous to

the right to trial by jury, etc. We submit that it does nothing of the kind. It merely declares the law that estoppels under local (state) law can not screen and protect violation of a federal law. Of course it does not and could not remove any estoppel arising under local law except such as would permit violation or prevent enforcement of a federal law. If violation or enforcement of a federal law is not involved in a state court case, local rules of estoppel are not affected by the Sola case, as we understand.

It appears from the opinions in the *Sola* cases that Sola agreed to maintain the prices established by Jefferson for its sale of the patented products as well as to pay royalty on the licensed products. After having operated under the license for some time, Sola refused to pay royalty on certain of the licensed products and refused to maintain licensor's established prices on those products, because, it asserted, the only claims of the patent covering those certain products had been held invalid by the Sixth Circuit Court of Appeals. Jefferson then sued Sola to recover the royalties withheld, and *also for an injunction restraining Sola from selling licensed products at prices below those established by the licensor.* The Seventh Circuit Court of Appeals (125 F. (2d) 322) held that Sola was estopped to deny validity of any claims of the licensed patent so long as it retained a license under the patent, ordered it to pay the accrued royalties, *and enjoined it from violation of the price-fixing clause of the contract.*

Petitioner urges the *Sola* decision as broadly giving a a licensee sued for royalties the *right* to attack validity of the licensed patent, if there is a price-fixing clause in the

license agreement, regardless of whether enforcement of the price-fixing clause is involved in the litigation. Our position is that the Sola case goes no further than to give to a licensee the right *to defend against enforcement of a price-fixing clause* by challenging validity of the licensed patent because enforcement of the price-fixing clause would be contrary to federal law if the patent were invalid. We think the decision must be so interpreted and restricted because that was the actual case before this Court.

That the price-fixing clause in the Sola case was directly in issue appears clearly from this Court's statement of the case. See the first paragraph of the opinion:

> "*The question for our decision is whether a patent licensee, by virtue of his license agreement, is estopped to challenge a price-fixing clause in the agreement by showing that the patent is invalid,* and that the price restriction is accordingly unlawful because not protected by the patent monopoly."

Note the last sentence of the second paragraph of this Court's opinion:

> "Respondent sought recovery of unpaid royalties *and also an injunction restraining further sales except in conformity to the terms of the license agreement.*"

In the present case the legality of the price-fixing clauses under federal law is moot in the state court since no enforcement thereof is sought. In addition, the patent is presumptively valid, and the price-fixing clauses are presumptively legal in the state court. Why therefore should it consider a federal question raised collaterally as a defense under such circumstances?

In *U. S. v. Alaska,* 253 U. S. 113, this Court said at page 116:

> "* * * it is settled principle in this court that it will determine only actual matters in controversy essential to the decision of the particular case before it. * * * However convenient it might be to have decided the question of the power of the Commission to require the carriers to comply with an order prescribing bills of lading, this court 'is not empowered to decide moot questions or abstract propositions, or to declare, for the government of future cases, principles or rules of law which cannot affect the result as to the thing in issue in the case before it.' * * *" Citing *California v. San Pablo & Tulare R. Co.*, 149 U. S. 308, 314.

Chicago vs. Katzinger is Immaterial.

Petitioner cites *Chicago v. Katzinger*, 139 F. (2d) 291 to support his construction of the Sola case. Our position as to the *Chicago* case is that it is bad law. So far as we know there is no other case to the same effect. And even if there be direct conflict of interpretation of the *Sola* decision between the Seventh Circuit Court of Appeals and the Supreme Court of Pennsylvania, that does not give this Court jurisdiction in this case.

The Sola case has been concurrently discussed and applied by the Second Circuit Court of Appeals in *Nachman v. Kay*, 139 F. (2d) 781. In that case defendant in settlement of litigation agreed by written contract to acknowledge the validity of a patent, to discontinue the manufacture and sale of any devices that would infringe the patent, not thereafter to make any article coming under the patent, and not to contest validity of the patent if sued. Defendant later made articles that came under the patent, and was sued. The lower court enforced the contract in all its terms. The Second Circuit Court of Appeals re-

versed the lower court, holding that such a contract could be valid under federal law only if the patent were valid, and that validity would therefore have to be considered.

Referring to the *Sola* case the Court said—

> "But the rationale of the opinion is that there can be no valid estoppel to deny the validity of a patent *if the estoppel will result in a contravention of Federal Anti-Trust Laws.*"

That construction of the Sola case by the Second Circuit Court of Appeals, as we understand it, is the one accepted and applied by the Supreme Court of Pennsylvania. If respondent in this case were seeking to enjoin MacGregor from selling the licensed solder at prices less than those charged by Westinghouse for the patented solder, then petitioner's position as to the bearing of the Sola case and his right to attack validity would be correct. Since granting the full relief asked by respondent in this case does not require anything directly or indirectly forbidden by the Federal Anti-Trust Laws, the Sola case does not apply.

Petitioner's "Counterclaim" is Unfounded.

Petitioner in his counterclaim (R. p. 20a) asks damages in a state court under the Sherman Act and other unidentified "Federal Anti-Trust" Acts. But his pleading states no amount or basis for determining the alleged damages, and pleads no facts upon which damages could be based. The Trial Court had no basis in the pleadings for considering this part of the counterclaim, even if it had had jurisdiction to do so. On this point the Supreme Court of Pennsylvania referred to petitioner's claim for damages as follows:

"In addition he [MacGregor] now asks for damages in an *unstated amount upon an unstated cause of action* under the Sherman Anti-Trust Act (U. S. C., Title 15, Secs. 1 and 2)" * * * R. p. 13b.

The Licensed Patent is Prima Facie Valid, and the Price-Fixing Clauses thereof are Prima Facie Legal.

Petitioner's brief argues at pages 16-8 that the licensed patent is *prima facie* invalid. So far as we know, it has been established law for a long time that any patent duly issued by the United States Patent Office is presumed to be valid until the contrary is made to appear by competent evidence. We know of no decision to the contrary, and petitioner cites none.

Kokomo v. Kitselman, 189 U. S. 8, 23;
American v. DeGrasse, 157 F. R. 660, 663.

No case holds it illegal *per se* to include in a patent license a requirement that licensee shall not sell the licensed product at prices less than those charged by the licensor for its patented product. As we understand it, such clauses are *prima facie* valid under the decisions of this Court.

U. S. v. General Electric, 272 U. S. 476.

The Price-Fixing clauses in this License were entered into in Good Faith.

There can be no question about the good faith of the price-fixing clause in the present license agreement. There is no basis in the pleadings or findings for any charge of *conspiracy* to restrain trade. There is no foundation in the pleadings or in the facts for the charge of *"legal duress",*— made for the first time in this petition. The only parties to

the license agreement are the parties to this suit, and petitioner still clings to his rights under the license, as shown by our next paragraph.

Petitioner during the Trial Recognized the License as Legal and Effective.

Petitioner, MacGregor, testifying *pro se*, under cross-examination, in effect repudiated any attack on the legality of the license agreement and validity of the patent by specifically recognizing his then existing and future right to make and obligation to pay royalty on any solder "properly covered" by the Jones patent. See the Trial Court's finding 12 at 243 a. For the convenience of the Court we quote his testimony on this point from R. p. 144-5 a:

> "XQ. You and your counsel decided to take the license, and you did take the license? A. Yes, sir.
>
> "XQ. You still have that license in effect? A. That's right.
>
> "XQ. And you have made the phos-copper solder without any other ingredient, and paid a royalty on that under that license? A. That's right.
>
> "XQ. *And if you made any tomorrow, you would pay a royalty under that license?* A. *Yes, sir.*
>
> "XQ. *You regard the license as still in force and effect?* A. *I regard the license as still in force and effect under advice from Mr. Jaspert, as applying to the phos-copper alloy alone.*
>
> "XQ. *In other words, you regard the license as still in force and effect as covering anything that properly comes under the Jones Patent, do you not?* A. *That property comes under the Jones Patent, yes, sir.*"

That testimony, we submit, is an unqualified admission by petitioner of the legality of the license contract when applied to any solder that "properly comes under" the Jones patent. In view of that position stated by the petitioner-defendant in open Court, we submit that the only

questions properly before the Trial Court thereafter were whether defendant's solders upon which royalty was claimed come under the patent construed in the light of the prior art. That question was decided on its merits by the Trial Court. That position of defendant, as we see it, eliminated the possibility of further attack on the legality and enforceability of the license contract. Obviously, petitioner accepted the license as legal in spite of the inclusion of a price-fixing clause,—except for the purpose of defense to payment of royalties on certain solders.

Petitioner's "Statement of Questions Involved" is Incorrect in its indication of the Decision Below.

Petitioner's "Statement of Questions Involved" in its Appendix indicates (page 9 "1.") that the Supreme Court of Pennsylvania held it proper to give to a patent a scope inconsistent with its disclosure and to cover subject matter disclaimed by the patentee. Respondent argued no such thing. The Court below held no such thing. It received all the evidence petitioner offered to show the proper scope of the patent, including the file history and all the prior art offered by petitioner. Then it held petitioner's products within the scope of the patent. *That was a decision on the merits,* not on any such law point as broadly stated by petitioner.

As to disclaimer by the patentee, the file history in which the alleged disclaimer arose was received in evidence and considered by the Court. Petitioner's contention of disclaimer was rejected. *That decision was on the merits,* and presents no reviewable question for this Court.

Petitioner also says (page 9 "2".) that the Supreme Court of Pennsylvania held that a defendant is not permit-

ted to show that the patent under which he is licensed can not be construed to cover the article for which plaintiff seeks an accounting. Respondent made no such argument below, and the Court below made no such ruling or decision. On the contrary all of the prior art patents and publications offered to limit the scope of the patent were received, without objection, and were discussed by the Trial Court for that purpose. See R. p. 244-6 a. The decision was against defendant-petitioner *on the merits*, not on the broad law point now asserted.

Petitioner's "Reasons for Allowance of the Writ" are Not well Founded.

Answering this statement in order, respondent's position is as follows.

"I." There is no conflict between the decision of the Supreme Court of Pennsylvania and this Court's decision in the *Sola* case. It clearly appears from the statement in the decision below at R. p. 17b, that the Supreme Court of Pennsylvania accepts the law as laid down in the *Sola* case, but finds it not applicable to the facts and pleadings of the instant case.

"II." There is no such conflict of decision between the Pennsylvania Supreme Court in this case and the U. S. Seventh Circuit Court of Appeals' decision in the case of *Chicago v. Katzinger,* 139 F. (2d) 291, as referred to in the statutes giving this Court review jurisdiction. The Pennsylvania Court interprets the *Sola* case as not calling on it, under Pennsylvania law of contract construction, to decide whether enforcing a clause of the contract that it is not asked to enforce, would result in violation of a federal law. In so doing it followed established precedents of its

own prior decisions, as well as federal court decisions. The Seventh Circuit Court of Appeals obviously approached the issue from a different angle.

"III." The Supreme Court of Pennsylvania has not decided any "federal question", in the sense of the jurisdictional statute, in the instant case. It has merely applied an existing contract to the facts of a case brought in Pennsylvania Courts between Pennsylvania citizens. That defendant sought to avoid his contractual obligations by asserting a defense and counterclaim based (as mere conclusions of the pleader) on federal law does not bring the case within the jurisdictional statute for review by this Court, as we understand it. The statute requires that a federal law be *necessarily* involved, and *necessarily decided* to support the judgment rendered.

The Waiver Telegram is Immaterial.

At page 14 of his brief, petitioner in a footnote quotes a telegram allegedly received from respondent, arguing from it that respondent must agree with petitioner's views on the illegality of the price-fixing clauses of the license contract—because it has waived enforcement of them.

This is not proper argument or valid conclusion for several reasons. In the first place, the alleged telegram is not in the record, and was not before the Courts below. Obviously petitioner has no right to inject it into the case at this stage, or to base any argument on it.

In the second place, even had the alleged waiver been sent before the trial, and received in evidence, it would have made no difference to the issues being tried. Respondent had in legal effect waived the price fixing clause when it brought suit on the contract without asking that defend-

ant be required to respect the price-clause, or pay damages for its breach. Before suit was filed MacGregor had violated the price-fixing clause, and had refused to be bound by it for some products, at least. See opinion below at R. p. 16b and MacGregor's testimony at R. p. 148 a.

Petitioner Misunderstands the "Blue Pencil Rule".

At page 15, petitioner's brief argues that the price-fixing clauses of the contract in suit are not divisible under the "Blue Pencil Rule" which has been applied by the Supreme Court of Pennsylvania in this and other cases. We think it unnecessary to argue this point at length in this brief. The Supreme Court of Pennsylvania found the legality of the price-fixing clause a moot question, because it was not in suit, and did not therefore need to apply the Blue Pencil Rule. However, it is pertinent to point out that the cases cited at pages 15 *et seq.* by petitioner are not in point in the case at bar. All of them refer to situations where an invalid, or partly invalid, consideration flowing from the first party was relied upon to support a number of different obligations by the second party. In the present case quite obviously the consideration flowing from Westinghouse was the grant of a license under a patent. There can be no possible attack upon the legality of that consideration. The several obligations of petitioner, including the obligation to pay royalty, to account, to maintain licensor's prices, were all based upon that single valid consideration of the license grant. No case having similar circumstances is cited by petitioner.

The Blue Pencil Rule as recognized in Pennsylvania has been applied by the Federal Courts, for example, in the following cases:

Oregon v. Winsor, 87 Wall. 64;
Cincinnati v. Bay, 200 U. S. 179;
Western Union v. Pennsylvania, 129 F. 849;
Paramount v. National, 49 F. (2d) 64.

All of those were cases where more than one obligation was based on a valid consideration but one obligation was alleged to be illegal as in restraint of trade. Divisibility was found as to the obligations. A definition and application of the Blue Pencil Rule as we understand it is given in *Kessler v. Jefferson,* 125 F. (2d) 108, by the Sixth Circuit Court of Appeals, at page 111.

Petitioner's "Conclusion" is Unfounded.

At page 24 of his brief, petitioner says the instant suit involves "legal duress" and "a fraud upon petitioner and the public". Such extravagant statements are meaningless when one considers that the only issue here involved is payment of royalties as provided by a contract between the parties. There is no evidence whatever of any "premeditated scheme" to destroy petitioner, and no pleading to that effect. Petitioner was sued in the United States District Court under a straight patent infringement bill. *He was then in court with every opportunity to attack validity and show non-infringement.* He preferred to take a license. After operating as a licensee some four years, he decided to discontinue the payments he had agreed to make. Respondent sued in the state court on the contract. It could not then sue for infringement because petitioner has a license to make any product covered by the patent. It had to sue in the state court, because the parties are citizens and residents of the same county and state.

Conclusion.

Respondent submits that there is no jurisdiction for review of this state court case, because no federal question is involved and because no final judgment has been entered below. Aside from that, enough appears from the petition and the opinion below to show that petitioner has no case on the merits. The petition should be denied from any point of view.

Respectfully submitted,

JO. BAILY BROWN,
Counsel for Respondent,
First National Bank Building,
Pittsburgh, Penna.

WILLIAM BOOTH,
Of Counsel,
Union Trust Building,
Pittsburgh, Penna.

September 13, 1944.

(10)

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IN THE

Supreme Court of the United States

OCTOBER TERM, 1944

NO. 373.

ALPINE MacGREGOR, Petitioner,

v.

WESTINGHOUSE ELECTRIC & MANUFACTURING COMPANY, a Corporation, Respondent.

REPLY BRIEF FOR PETITIONER.

WILLIAM B. JASPERT,
Counsel for Petitioner.

1301 First National Bank Bldg.,
Pittsburgh, Pa.

September, 1944.

SMITH BROS. CO. INC., LAW PRINTERS, 434-436 BOULEVARD OF ALLIES, PITTSBURGH, PA.

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To the Honorable, The Chief Justice and Associate Justices of the Supreme Court of the United States:

Petitioner deems it necessary to comment briefly on the question raised in respondent's brief as to this Court's jurisdiction.

Respondent, while admitting that this Court has jurisdiction to review a judgment of a state court under 28 U. S. C. 344, asserts that petitioner has not met the burden of showing jurisdiction because no cases pertinent to the source of jurisdiction under 28 U. S. C. 344 have been cited. In *Waters Pierce Oil Co. v. Texas,* 212 U. S. 86, this Court held that it has jurisdiction to review state courts' decisions denying federal rights whether

those pertaining to the construction of federal or state statutes or to certain rights, immunities or privileges of federal origin especially set up in the state court and denied by the rulings and judgment of that court.

The second point raised by respondent is whether a federal question is involved in the decision below. The assignment of errors, p. 12 of the petition, clearly establish that federal questions are involved and have been passed upon by the state court. In the opinion at the very outset, the Court states the issue to be the question of whether under this Court's decision in *Sola Electric Co. v. Jefferson Electric Co.,* 317 U. S. 173, petitioner can attack the legality of the license agreement by asserting invalidity of the licensed patent. The question of legality of the agreement involves the issue of violation of the Sherman Anti-trust Law and the question of validity of the patent involves the federal patent laws. That the Pennsylvania Supreme Court ruled on these questions is evident from the opinion, in which the Court says:

> "The first question for us to decide is whether the Sola case supra, removes the estoppel ordinarily on a patentee to attack the validity of a patent when the license contract provides for price fixing."

The Court then discussed this Court's decision in the *Sola* case at great length. It further appears in the appendix, p. 9 of the petition, that these very questions were asserted by petitioner to be the issues on appeal in the Pennsylvania Supreme Court. The case at bar obviously involves federal questions that are directly in issue in the litigation and are not merely frivolous, as stated by respondent.

The third point raised by respondent's reply on the question of jurisdiction is with respect to the finality of the judgment below, respondent contending that the judgment of the trial court in this case was for an order of accounting and is not final. In *Department of Banking v. Pink,* 317 U. S. 264, 268, this Court said:

> "For the purpose of the finality which is prerequisite to a review in this Court, the test is not whether under local rules of practice the judgment is denominated final, * * * but rather whether the record shows that the order of the appellate court has in fact fully adjudicated rights and that that adjudication is not subject to further review by a state court."

There are many cases by this Court holding that a judgment or decree which terminates the litigation between the parties on the merits, so that the lower court may execute its judgment on affirmance, is final; *Whiting v. Bank of U. S.,* 13 Pet. 6, 10 L. Ed. 33; *Forgay v. Conrad,* 6 How. 201, 12 L. Ed. 404; *Board of Commissioners v. Lucas,* 93 U. S. 108; *Bostwick v. Brinkerhoff,* 106 U. S. 3; *Mower v. Fletcher,* 114 U. S. 127; *Chesapeake & Pot. Tel. Co. v. Manning,* 186 U. S. 238.

In the case at bar the order of the Pennsylvania Supreme Court reads:

> "The judgment in the nature of a decree is affirmed; costs to be paid by the appellant."

The order affirmed (R. 331 a) reads as follows:

> "And now, to wit, January 24, 1944, exceptions ex parte defendant to findings of fact, conclusions of law, and order of court are dismissed.
>
> "The Prothonotary is directed to enter judg-

ment ordering and directing that the defendant render an account to the plaintiff (a) for all sales of brazing solders containing tin manufactured, and, since January 1, 1940, to the date of such accounting, sold by the defendant, all such solders being covered by U. S. Letters Patent No. 1,651,709 issued by the United States Patent Office to the plaintiff as assignee, and (b) for all sales of brazing solders containing silver manufactured, and, since November 16, 1937, to the date of such accounting, sold by the defendant, all of same being covered by said U. S. Letters Patent No. 1,651,709; that the plaintiff have the right to inspect the books and papers of the defendant; and that such account be rendered by the defendant within thirty (30) days from the date of judgment."

This judgment and order of court is final in that it defines the solders to be accounted for at the royalty rate specified in the license. The judgment has been filed and entered by the Prothonotary pursuant to the Court's order and would dispose of this litigation except for the order of the Chief Justice of the Supreme Court of Pennsylvania, entered July 10, 1944, which is as follows:

> "And Now, July 10, 1944, it is ordered that the Prothonotary of this Court for the Western District thereof, hold the record in the above-entitled case for a period of thirty (30) days from this date, within which time the appellant may make application to the Supreme Court of the United States for a Writ of Certiorari."

The decision of the Supreme Court of Pennsylvania is a finality on the merits of the case and every issue

here involved and they could not again be reviewed by any court of the State. There is no further proceedings in the court below except the satisfaction of judgment on the record, which is a ministerial function performed by counsel.

It is deemed that no reply to respondent's brief on the merits is required except to point out that on page 10 of respondent's brief it erroneously assumes that the construction given the *Sola* case by the Supreme Court of Pennsylvania is supported by the construction given that case in *Nachman v. Kay,* 139 F. 2d 781, decided by the Second Circuit Court of Appeals, wherein it followed its former decision in *American Cutting Alloys Inc. v. General Electric Co.,* 135 F. 2d 502. As we understand these decisions by the Second Circuit Court of Appeals, they construed the *Sola* case in the same manner as the Seventh Circuit Court of Appeals in *Chicago v. Katzinger,* 139 F. 2d 291, which respondent states is "bad law". The decision by the Supreme Court of Pennsylvania is therefore in conflict with the decisions of both the Second and Seventh Circuit Courts of Appeals.

Conclusion.

The authorities establish that the Court has jurisdiction to review the judgment below which involves important federal questions of anti-trust and patent laws.

Respectfully submitted,

WILLIAM B. JASPERT,
Counsel for Petitioner.

Pittsburgh, Pa.
September 22, 1944.